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CABINET AFFAIRS STAFFING MEMORANDUM

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Date: 1/16/84 Number: 168886CA Due By: ______

Subject: Cabinet Council on Economic Affairs - Tuesday, January 17, 1984
8:45 am in the Roosevelt Room
TOPICS: Line Item Veto
Tax Refund Offsets

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☑	☐
Attorney General	☐	☑
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☑	☐
Transportation	☑	☐
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
Baker	☑	☐
Deaver	☐	☐
Darman *(For WH Staffing)*	☑	☐
Jenkins	☐	☑
Mc Farlane	☐	☑
Svahn	☑	☐
CCCT/Gunn	☐	☐
CCEA/Porter	☑	☐
CCFA/	☐	☐
CCHR/Simmons	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/	☐	☐

REMARKS:

The Cabinet Council on Economic Affairs will meet on Tuesday, January 17, 1984 at 8:45 a.m. in the Roosevelt Room.

The agenda and background papers are attached.

DCI EXEC REG

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson ☐ Don Clarey
☐ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
456-2800

L 300B

THE WHITE HOUSE

WASHINGTON

January 13, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Papers for the January 17 Meeting

The agenda and papers for the January 17 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item concerns tax refund offsets. On March 24, 1983, the Cabinet Council on Economic Affairs requested the Internal Revenue Service to provide a report on "The Effect of Refund Offsets for Delinquent Child Support Payments." A copy of their report is attached.

The second agenda item is a report on the effects of an item veto on government spending. Following the recent Cabinet Council discussion of alternative ways of enhancing authority to limit spending, Bill Niskanen prepared some material on the question of state experience with the line item veto. His memorandum on "The Effects of an Item Veto on Government Spending: Evidence from the States" is also attached.

Attachments

CABINET COUNCIL ON ECONOMIC AFFAIRS

January 17, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Tax Refund Offsets
   (CM # 100)

2. Effects of an Item Veto on Government Spending
   (CM # 412)

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

Mr. Roger B. Porter
Deputy Assistant to the President
for Policy Development
The White House
Washington, DC 20500

Dear Roger:

Enclosed for the use of the Cabinet Council on Economic Affairs is a tax administration impact report of the existing program to offset individual income tax refunds in order to collect certain delinquent child and spousal support. On March 24, 1983 the Cabinet Council decided to delay further testing of the refund offset programs pending the completion of this study.

The study compared for tax year 1981 and 1982, the compliance tax behavior of taxpayers who were subject to offset with a group of taxpayers, the control group, not subject to offset. The control group had similar characteristics (income levels, filing status and the like) as the taxpayers in the offset group.

The report clearly shows significant negative changes in compliance behavior:

- o Taxpayers who were offset against for tax year 1981 were more than twice as likely as the control group to not file tax returns for tax year 1982.
- o Those offset against were more than three times as likely to have a delinquent tax account in the next year.

Besides the obvious negative effects on tax compliance, the data also indicate that there are costs to such a program which go beyond the $11 per offset case charge. While we have not precisely quantified these costs, they are still very real and include: first, the operating cost to the Service to collect delinquent tax accounts and to obtain nonfiled tax returns and second, the tax revenue not collected from those who reduce or eliminate their compliance with the tax system and whom we do not contact, either because we cannot locate them or because of limited resources.

It should be clearly understood that there are several limitations to the study results. First, the study only attempts to measure behavior over a limited period of time. Second, while taxpayers in the control group have the general characteristics of those eligible for offset, they did not owe delinquent child support. Despite these caveats we present the accompanying report as the best available facts on the effects of such a program, upon which reasoned judgements must be made.

The report's findings, while they can not be conclusive, do give us considerable concern because the best available facts indicate significant adverse impact on tax administration. We suggest that any possible future extension of a refund offset program, at a minimum, await the further study of the existing program. As noted in our study report, we already plan to extend our study to another year of the refund offset program.

In conclusion, our view is that our study report is a sufficient basis to defer any further expansion of a refund offset program at this time.

With kind regards,

Sincerely,

Roscoe Egger

Enclosure
As stated above

cc: Mr. Chapoton

Report
on
The Effect of Refund Offsets for Delinquent Child Support Payments

Department of the Treasury
Internal Revenue Service
October, 1983

EXECUTIVE SUMMARY

BACKGROUND

Public Law 97-35, the Omnibus Reconciliation Act of 1981, provides that IRS offset individual income tax return refunds to collect delinquent child/spousal support for cases referred by the States through the Office of Child Support Enforcement (OCSE) of Health and Human Services (HHS). State participation in this program is mandatory under the Act. This program can be viewed as a pilot program in that it is the first large-scale effort to attempt to collect non-tax obligations through the offset of tax refunds.

The first year's referrals from the States totaled about 547,000 cases, and all of the TY81 referral cases (465,535) that matched the Individual Master File (IMF) were selected as the study group for this analysis. The study group was then divided into two groups, those with an offset for delinquent child support payments (265,603) and those with no offset (199,932). Both groups were tracked from TY81 to TY82 in order to compare filing and withholding patterns. While some attention has been given to the non-offset cases with respect to filing patterns, the major focus of this study has been on the refund offset group to determine the changes in filing and withholding patterns that may have been stimulated by the offset, as compared with a control group of 153,429 returns. The control group, a stratified sample of refund returns having no refund offset for delinquent child support, was selected to parallel the refund offset group in terms of taxable income and filing status.

KEY FINDINGS

- Taxpayers subject to a refund offset were twice as prone as the control group to become balance due cases in the following tax year. (See page 7.)

- The refund offset cases were three times as likely to become Taxpayer Delinquent Accounts (TDA's) in the subsequent tax year as the control group. (See page 7.)

- Twenty-six (26) percent of the taxpayers who had a refund offset for delinquent child support for TY81 did not file a tax return in the succeeding year. Proportionately, this is more than twice as many as the control group (12 percent). (See page 6.)

- There was a noticeable decrease from TY81 to TY82 in the size of the refund available for offset for refund offset cases as compared to the control group. Approximately 60 percent of the refund offset cases had a smaller refund for TY82 than for TY81 as compared to 50 percent of the control group. The size of the decrease was also more significant for the refund offset group. This decline in the size of the refund could be traced, not to a decrease in withholding, but rather to a decrease in the number of dependents claimed on the tax returns, which would have the effect of reducing the refund and lessening the incentive to initiate a change to withholding for such purpose. (See page 8.)

- Of the 265,603 TY81 refund offset cases, 175,526 (66 percent) also had a refund freeze for TY82. This high proportion of repeaters indicates that the offset program has not affected the pattern of non-payment. (See page 3.)

- A significant difference between the refund offset group and the control group was not uncovered by a comparison of withholding to salary in the first year after the offset. But it is critical to recognize that there has been little time (generally less than six months after the offset) for a reaction by taxpayers with a refund offset to change their yearly withholdings. (See page 8.)

- Although the number of cases referred to the Service by OCSE increased from 547,000 in processing year 1982 to 821,000 in processing year 1983, the percent of referral cases resulting in an actual refund offset decreased from 51 percent to 39 percent. (See Attachment 3.)

- Even though the average refund issued, including interest, for all individuals increased from $769 in processing year 1982 to $822 in 1983 (through August), the average amount of the refund offset for delinquent child support declined from $624 to $526 for the same period. (See Attachment 3.)

In summary, the refund offset is the only critical tax-related item known to separate the offset group from the control group and is the most probable cause of decreased voluntary compliance and tax revenues, as manifested in the increase of balance due and non-filer cases. While the actual long-term effect on withholding behavior may not yet be determined accurately, given the inherent limitations in the study data and the first year changes in the number of dependents claimed, the apparent effect of increased nonfiling is the most significant detrimental repercussion of non-tax related refund offsets. The Service anticipates conducting a subsequent study to follow refund offset cases in a third year to measure more completely the effects of the refund offset program on the tax system.

Table of Contents

I. INTRODUCTION

Public Law 97-35, the Omnibus Reconciliation Act of 1981, provides that the Service offset individual income tax return refunds to collect delinquent child/spousal support for cases referred by State child support enforcement agencies through the Office of Child Support Enforcement (OCSE) of the Department of Health and Human Services (HHS). State participation in this program is mandatory under the Act for all delinquent support cases in which the children and spouses are receiving Aid to Families with Dependent Children (AFDC) benefits. Delinquent support cases not involving families receiving AFDC benefits are not eligible for referral under the offset program established by the Act.

States must submit all requests for collection to OCSE by October 1, each year. Cases must meet the following criteria to be eligible for the refund offset program: (1) the support obligation must have been established by a court order or by an order of an administrative process established under State law, and must have been assigned to the State pursuant to Section 402 (a)(26) of the Social Security Act; (2) the delinquent amount owed must not be less than $150; (3) the support payment must have been delinquent for at least three months as of January 1 (if the obligation is satisfied between October and January, a revision may be submitted to the Service); (4) request must be made by the State to which the obligation has been assigned by the court order; and (5) the State must have exercised reasonable effort to collect the debt. The cases are accumulated by HHS and transmitted to the Service by January each year.

Referral cases are matched against the Individual Master File (IMF) and freeze[1/] conditions are posted so that any refund due to the taxpayers can be used to offset the delinquent child support payments. The offset refund may be for a return filed for any tax year as long as the return is processed during the year in which the freeze condition was imposed. At the close of each processing year, all freeze conditions for child support payments are removed from the IMF. Therefore, if a taxpayer still has not satisfied the child support obligation, it is the responsibility of the State agency to resubmit the case the following year.

The first year (processing year 1982) the program went into effect, there was no requirement that the taxpayer be notified by the State or by HHS of the possibility of a refund offset for the delinquent child support. However, several States may have taken the initiative to inform the taxpayer that the IRS would keep any

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1/A refund "freeze" means that the IRS Master File has been marked to issue no refunds until the child support liability has been satisfied. It does not mean that a refund is available to be offset or even that a current return has been filed. A refund "offset," on the other hand, means that the IRS Master File account had a freeze posted and that all or a portion of a refund was taken to satisfy all or part of a delinquent child support payment.

refund to offset delinquent child support. The Service informed the taxpayer when an offset was made and whether or not the offset fully or partially satisfied the obligation (see Attachment 1). A taxpayer whose refund was not offset in 1982 generally was unaware that the possibility of an offset existed. In the second year of the program (processing year 1983), HHS notified all taxpayers referred by the States, unless the States had already done so, that a refund return would be offset to satisfy child support obligations (see Attachment 2 for a sample pre-offset notice). This notice was sent in October 1982, prior to the filing season, but not in time for taxpayers to significantly decrease withholding for TY82 returns.

The Service costs for this program are fully reimbursed by the States through HHS for each offset made for each case. Total reimbursement for 1982 was $4.7 million or $17 per offset case. For 1983, through August, the reimbursement was $3.6 million or $11 per offset case. (For additional data on the overall refund offset program, see Attachment 3.)

II. OBJECTIVES

The primary objective of this study is to measure the effect on taxpayer's filing and withholding patterns caused by offsetting individual tax refunds to collect delinquent child/spouse support. This refund offset program can be viewed as a pilot project in that it is the first large-scale effort to attempt to collect non-tax debt obligations through the offset of tax refunds. There are numerous other Federal debts that the Service could be required by legislation to collect. Analysis of data on refund offsets for delinquent child support will be used to illustrate the potential effects that other efforts to collect non-tax obligations through tax refund offsets would have on the collection of Federal revenues and general compliance with the system of voluntary self-assessment of taxes.

III. STUDY METHODOLOGY

All TY81 referral cases for which a freeze condition was posted to the IMF were selected as the study group for this analysis. The study group was then divided into two groups, those with an offset for delinquent child support payments and those with no offset. Both groups were tracked from TY81 to TY82 in order to attempt to compare filing and withholding patterns. While some attention has been given to the non-offset cases with respect to filing patterns, the major focus of this study has been on the refund offset group to determine if changes in filing and withholding patterns were affected by the refund offset.

A control group was established to be used as a reference point to determine if taxpayers with a refund offset altered filing or withholding patterns to a greater extent than taxpayers not involved in the child/spousal support offset issue. This control group was a stratified sample of 153,429 returns selected from all refund returns that did not have a refund offset for delinquent child support. The control group was selected to parallel the study group in terms of taxable income and filing status (joint versus non-joint).

All offset, non-offset, and control group cases for TY81 were matched against the TY82 tax account to determine if taxpayers with a refund offset altered filing or withholding patterns. To determine changes in filing patterns, the cases were classified by account status into one of six categories for each tax year: (1) nonfiler, no tax information; (2) nonfiler, some tax information, such as estimated tax payments; (3) refund; (4) zero balance, timely payment; (5) tax due, full paid after notice; or (6) tax due, balance due and outstanding as of September 1983.[2/]

Tabulations for this report were based upon an extract from the IMF at the end of September 1983, in order to include cases that ultimately became Taxpayer Delinquent Accounts (TDA's) for TY82. TDA status is generally not determined until the end of September, although some cases may be determined to be TDA even after September.

IV. FINDINGS

A. Descriptive Data for Offset and Non-offset Referral Cases

The number of referral cases from HHS included in this study was approximately 547,000. Of these cases, about 80,000 cases could not be matched to the IMF because of errors in Social Security Number and/or name control (first four characters of last name). There were 265,603 matched cases with refund freezes for TY81 that subsequently resulted in refund offsets for delinquent child support, and 199,932 cases with freezes that did not result in offsets. Of this latter group, 66 percent had not filed a return for TY81.

Of the 265,603 TY81 cases with a refund offset, 175,526 (66 percent) also had a refund freeze condition posted to their TY82 tax account. Taxpayers who have had a freeze condition posted to

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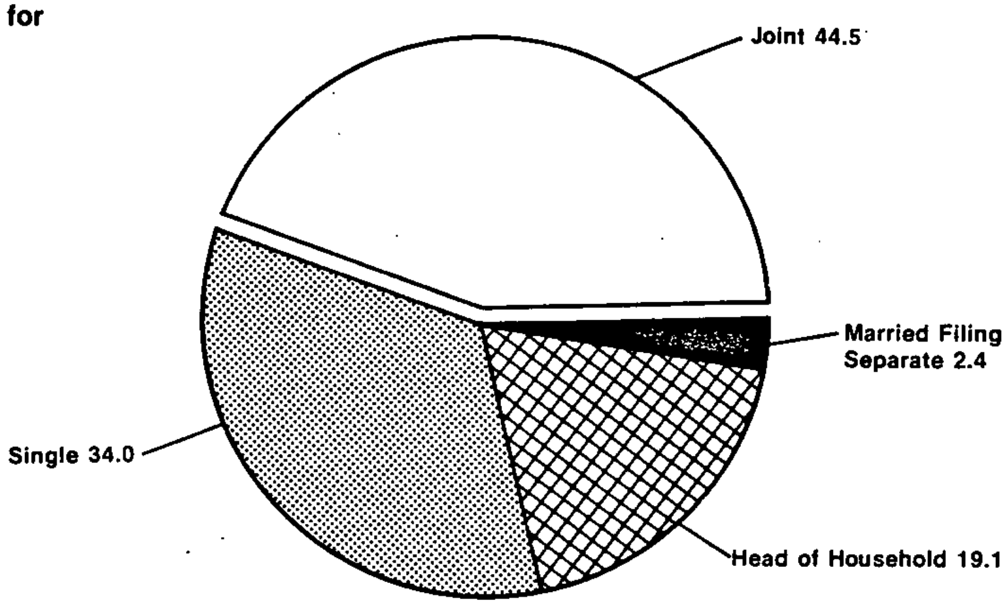
[2/] Zero balance, timely payment returns are those that had no tax liability or that had submitted a remittance for the total tax liability at the time the return was filed. Tax due, full paid after notice returns are those that had a tax liability which was satisfied after the return was filed and a notice was sent for the liability. Tax due, balance due and outstanding returns are those where withholding and other credits/payments were not sufficient to satisfy tax liability. Most balance due cases are paid or otherwise resolved as a result of notices mailed to taxpayers. Where a series of four notices does not achieve closure, the balance due case becomes a Taxpayer Delinquent Account (TDA), and is referred for further collection action to personnel in IRS field offices.

their tax account for both TY81 and TY82 had not satisfied their total child support liability and the program has not changed the pattern of non-payment.

Examination of the characteristics of taxpayers who had a refund offset show a fairly even distribution between joint filers (44.5 percent) and non-joint filers (55.5 percent). The following chart illustrates these categories in more detail.

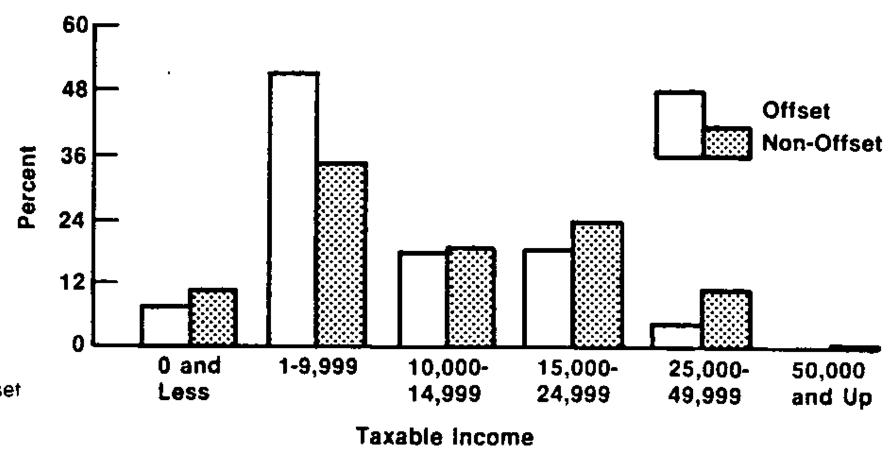
Chart 1.
TY81 Filing Status for Offset Cases



Note:
Widow(er) filing status accounted for less than 0.1 percent of the TY81 refund offset cases.

In 59.1 percent of the TY81 refund offset cases, taxpayers had taxable income below $10,000. This is a relatively low income level as compared to the general population (see Attachment 4). This result may be explained by the fact that the refund offset program applies to people whose families were forced to seek public assistance due to delinquent child support payment. Chart 2 shows the relative proportion of delinquent child support taxpayers with and without refund offsets in the various taxable income categories.

Chart 2.
TY81 Taxable Income for Offset and Non-Offset Cases

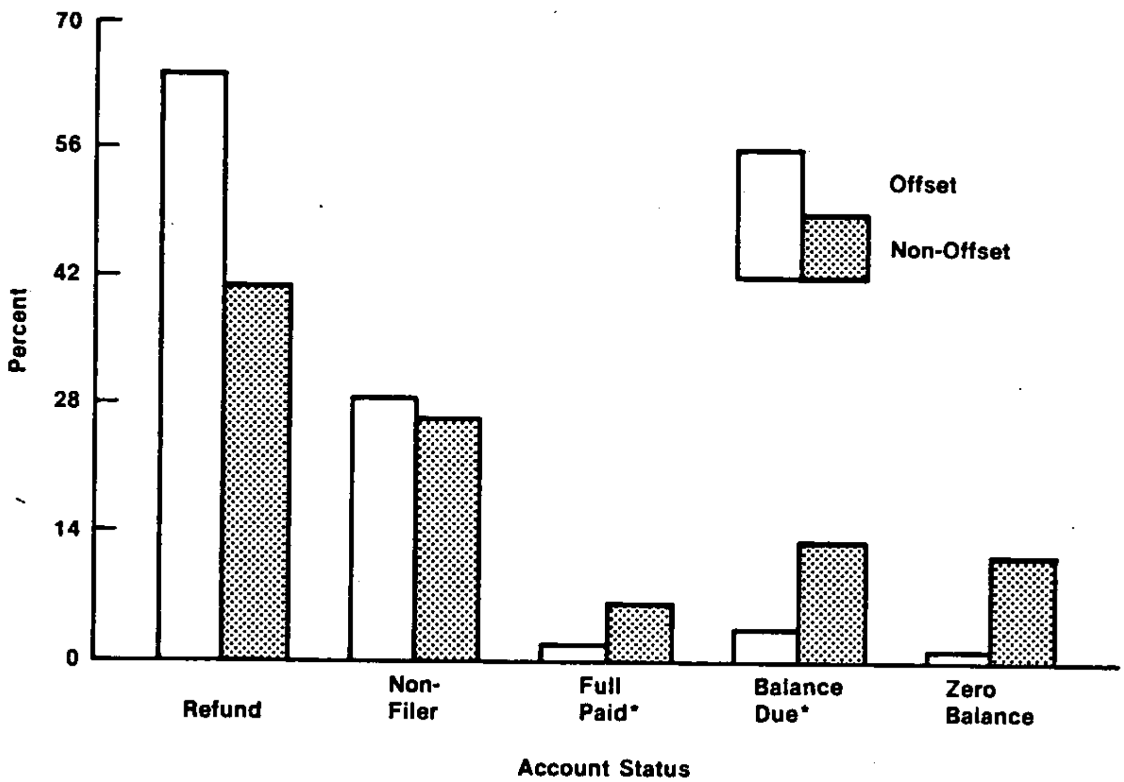


Note:
Less than 0.5 percent of the refund offset cases had taxable income of $50,000 or more.

As shown in Chart 2, the taxable income of taxpayers with delinquent child support but no refund to offset tended to be higher than that for taxpayers with a refund offset. Taxpayers with income below $10,000 are more likely to have withholdings that exceed tax liability. But, as taxable income increases, the proportion of non-offset cases relative to the offset cases increases. In these higher income ranges, withholding on wage income gradually becomes more likely to be insufficient to satisfy the tax liability or taxpayers are more likely to have non-wage income, resulting in a non-refund return.3/

The following chart shows the TY82 account status of referral cases, both offset and non-offset, that filed a return in TY81.

Chart 3.
TY82 Account Status for Returns with TY81 Freeze



*"Full paid" cases are those where tax was due but was paid after notice. "Balance due" cases are those where a tax liability was still outstanding as of September 1983; this includes cases classified as Taxpayer Delinquent Accounts (TDA's), as well as unpaid accounts still in notice status.

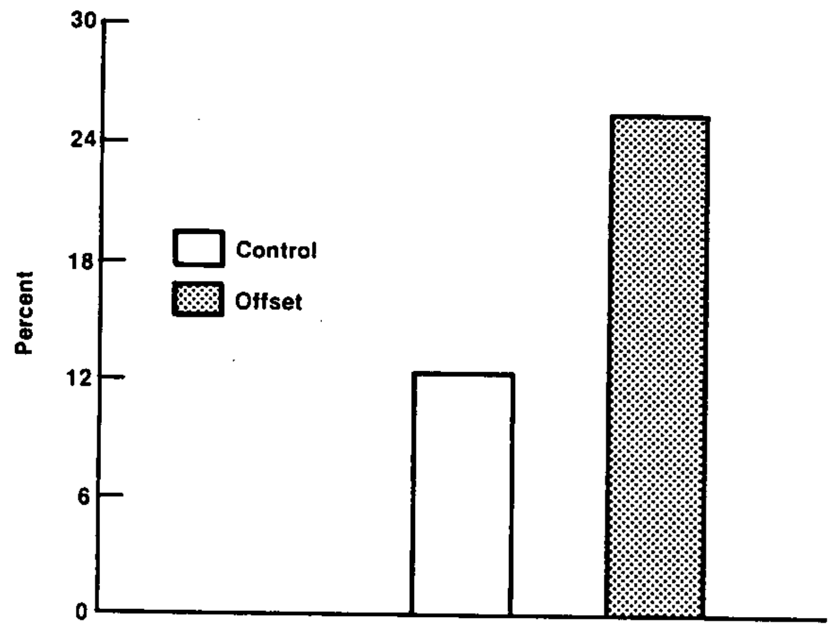
3/Approximately 78 percent of all taxpayers with taxable income less than $10,000 received a refund as compared to 65 percent of taxpayers with taxable income greater than $10,000 who received a refund.

From Chart 3, it can be seen that approximately 21 to 26 percent of taxpayers with a freeze for delinquent child support payments, whether they were offset or not, failed to file a return as of the end of September 1983. This is four and a half months after the normal due date and one month after a valid extension, if an extension were elected.

B. Comparative Data for Offset Cases and Control Group[4/] Cases

A comparison between the refund offset group and the control group shows a significant difference in the percent of TY81 refund cases where a TY82 income tax return had not been posted to the IMF[5/] as of the end of September 1983. Approximately 26 percent of the refund offset cases had not filed for TY82 compared with 12 percent of the cases from the control group. See Chart 4 below.

Chart 4.
1981 Refund Cases Without a 1982 Tax Return



Since the refund offset itself (or a notification of a potential offset) is the only critical tax-related item known to separate the offset group from the control group, it may be assumed that normal reasons to cease filing (insufficient earned income, deceased taxpayer, etc.) apply equally to both groups. Thus, the offset itself (or the threat of an offset) is the most probable cause for the large increase in filing non-compliance in the subsequent year. Taxpayers subjected to a refund offset may feel that the Federal government is "tracking" them through the tax system, and they may not file, even to receive a refund.

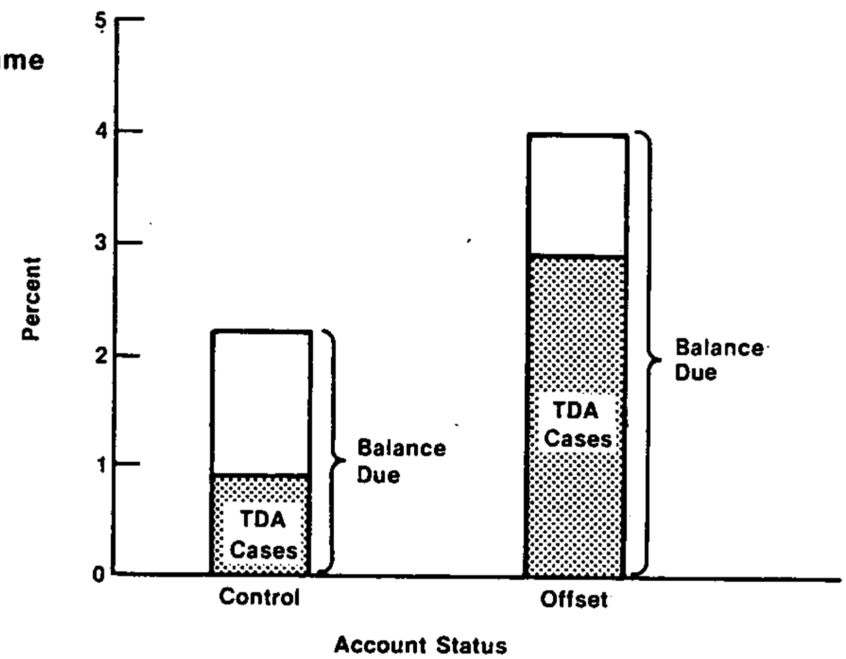
4/ The control group was comprised of refund taxpayers without a refund offset for delinquent child support and with taxable income and filing status characteristics similar to the refund offset group.

5/ Tax information (i.e., estimated tax payments) may have been present for TY82, but no tax return had been filed.

Moreover, taxpayers who have once had a refund offset may believe that the Service is providing information reported on Federal income tax returns to the States that will eventually lead to the garnishment of wages to satisfy the total child support obligation. This would be of much more serious financial consequence to the taxpayer than having a relatively small refund offset. Loss of a $600 refund due on a non-filed return may be preferred to loss of thousands of dollars of wages.6/ Whatever the motive, non-filing may be an even more significant result of offsetting than adjusting withholding, resulting in the generation of Taxpayer Delinquency Investigations7/ (TDI's) that would be costly for the Service to resolve.

Other significant differences between the refund offset group and the control group were that taxpayers subject to a refund offset were about twice as likely to become balance due cases in the subsequent year, and three times as likely to become TDA's, as shown in Chart 5 below.

Chart 5.
TY81 Refund Cases That Became TY82 Balance Due and TDA Cases as of September 1983



6/From the data compiled by OCSE (Attachment 5) for the period ending September 30, 1982, it can be determined that claims for delinquent child support payments submitted by the States averaged $3,855 per case. The average amount offset was slightly more than $600 per case for processing year 1982 and somewhat less than $600 for processing year 1983. It is evident, that on average, the offset would be insufficient to satisfy the delinquent child support claim.

7/Delinquency notices are sent in a situation where it appears that a tax return should have been filed. Usually, these series of notices result in securing delinquent returns or in obtaining an explanation for non-filing. Where these notices do not achieve closure, however, the delinquency becomes a Taxpayer Delinquency Investigation (TDI) and leads are produced for investigative action in IRS field offices.

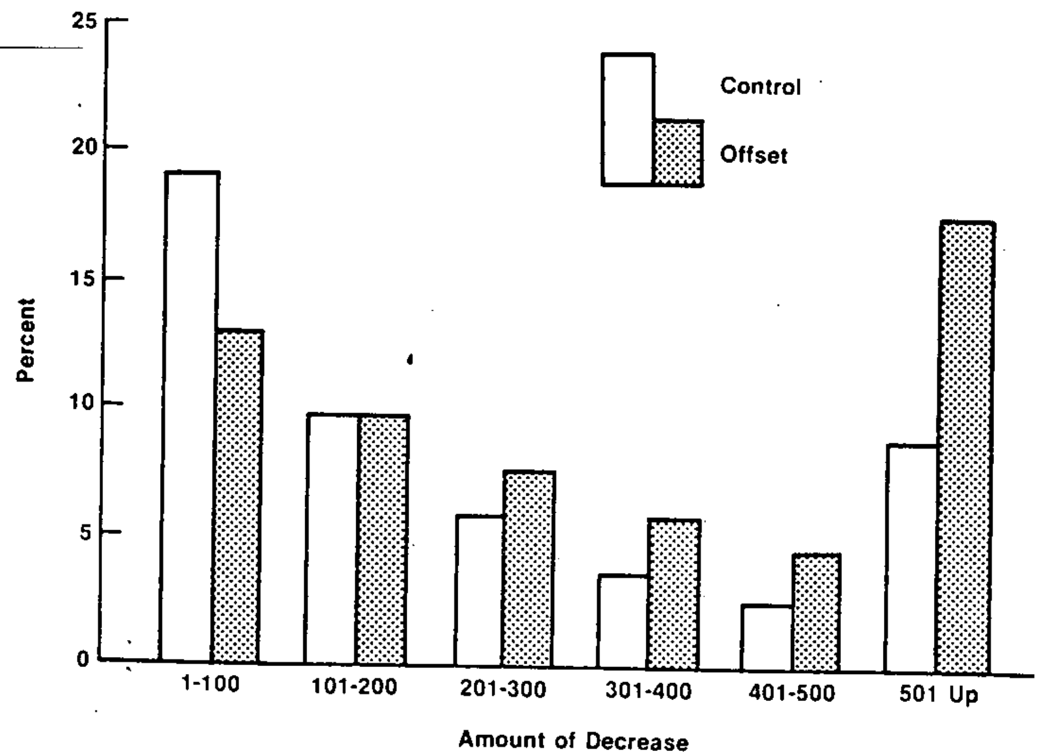
The TDA's represent a larger drain on Federal revenues and a greater burden to the Service than balance due cases, as considerable costs are incurred in attempting to collect the tax liability through enforcement action by IRS field personnel.

If all other conditions were unchanged, the larger proportion of balance due and TDA cases found in the refund offset group relative to the control group would indicate that taxpayers with refund offsets have taken definite action to alter their withholding patterns to eliminate an expected refund. However, an evaluation of the change of withholdings as a ratio of salaries from TY81 to TY82 does not reveal a significant difference between the refund offset group and the control group (see Attachment 6). Fifty-five percent of the refund offset cases had a decreased ratio of withholding to salary as compared to 57 percent of the control group. This is not conclusive proof, however, that a change to withholdings did not take place. Only examination and comparison of Forms W-4 filed at these taxpayers' places of employment could offer definitive proof. (See Study Limitations.)

While the withholdings issue remains cloudy, there is definite evidence that the refund offset group has exhibited a greater decline in refunds than the control group. Approximately 60 percent of the refund offset cases had a smaller refund for TY82 than for TY81 compared to about 50 percent of the control group. When the size of the refund decreases are compared (see Chart 6), the distinction becomes more marked.

Chart 6.

Refund Decrease from TY81 to TY82 for Offset and Control Group Cases



There are additional factors, such as number of dependents claimed and filing status, that would decrease or eliminate a refund from one year to the next. Below is a comparison in the change in the number of dependents claimed by the refund offset cases (Chart 7) and the control group (Chart 8).

Chart 7.
Dependents Claimed by Offset Group for TY81 and TY82

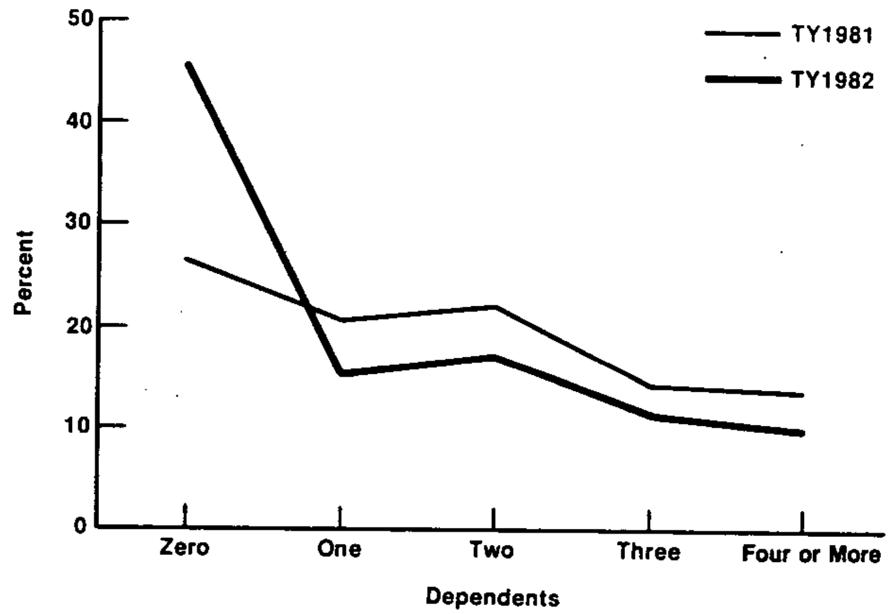
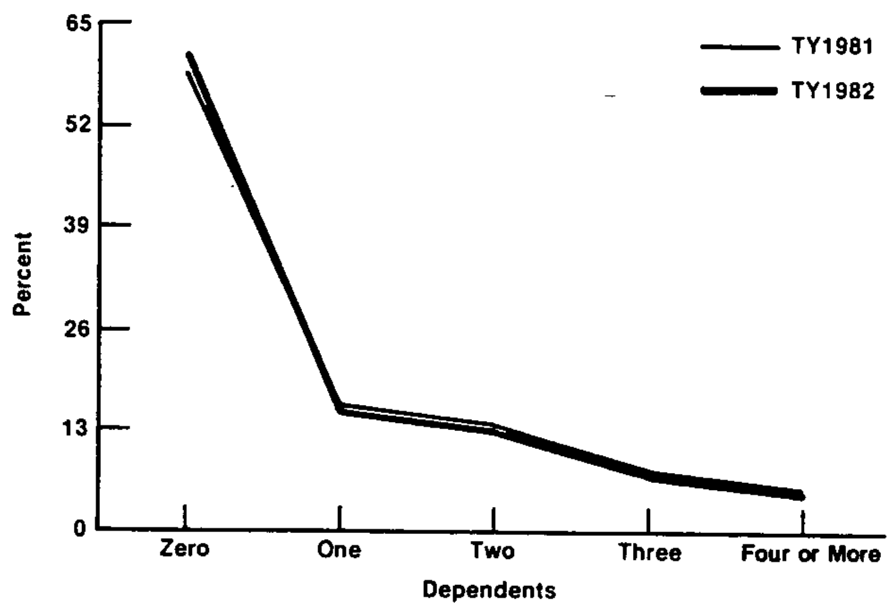


Chart 8.
Dependents Claimed by Control Group for TY81 and TY82



It appears that taxpayers with a refund offset have reduced the number of dependents claimed on their tax returns to a greater extent than the control group. This would be expected since they cannot claim a child as a dependent unless they actually provide the child support payment, and it is likely that they relate the number of illegally claimed dependents with the fact that they have had a refund offset. This reduction in the number of dependents claimed on the tax return has the effect of reducing the refund. Thus, in such cases the refund may have been reduced or completely eliminated, without the taxpayer having to take specific action to change withholding.

Overall, the analysis of the available data indicates that non-tax related refund offsets may very well have a significant deleterious effect on tax revenues and especially voluntary filing compliance. While the actual effect on withholding behavior may not yet accurately be determined, given the inherent limitations in the study data, the apparent impact of increased non-filing is noteworthy. Given the uncertainty of the long-term effects on the tax system, the Service plans to follow the refund offset cases in a third year to more completely measure their effect on the tax system.

STUDY LIMITATIONS

Assuming that taxpayers subject to a refund offset procedure might change their withholding patterns, it must be recognized that there has been insufficient time for the change to make itself evident in the tax system. For the most part, a change to withholding in reaction to a refund offset for TY81 would only be reflected in the last six months of TY82. The taxpayers must be notified of the offset; then, taxpayers must realize that a change in withholding could be used to circumvent offsets in the subsequent years; finally, time is required by the taxpayers' employers to effect the changes in the payroll systems. This series of steps means that most taxpayers with a refund offset would not have effected a withholding change until July 1982, at the earliest.

A change to withholding to affect a refund result is further complicated by a change in the number of dependents. If the taxpayer anticipates a change in the number of dependents, which will have the effect of reducing the refund, there will be less incentive to alter withholdings as well. The analysis of the data shows that refunds were reduced because taxpayers did make changes with respect to the number of dependents claimed on their tax returns.

A more accurate source to determine if there had been a change in withholdings would be examination and comparison of the Forms W-4 filed by the taxpayer with his/her employer. However, this would have involved contacting employers to obtain the information---a course of action deemed inappropriate since there was no tax liability issue involved. Thus, analysis for this study was restricted to existing data available on IRS files.

Selection of a control group represents another limitation. Ideally, the control group for the study would have been a sample of referrals from the Office of Child Support Enforcement where refunds available for offsetting would purposely not have been offset. This would have assured that significant differences between the control group and the offset group could have been completely attributed to the offset. This approach, of course, could not be justified under the concept of equitable enforcement of the referrals offset provisions of Public Law 97-35. In lieu of this, a sample of refund returns without a refund offset for delinquent child support, stratified by taxable income and filing status (joint versus non-joint), was selected as the control group to be used in this study. This control group parallels the refund offset group in terms of taxable income and filing status.

There are, however, numerous other factors such as number of dependents claimed, size of refund and deductions taken (standardized versus itemized) that were not able to be incorporated into the selection of the control group because of lack of available stratified data at the time of selection of the control group. However, it would be very difficult to incorporate all of the numerous combinations of variables that would be necessary to select a control group that mirrored the offset group. Further, this "tax-window" view used in selecting a scientific control group may not take into consideration the most egregious social behavioral characteristic of the group being studied, i.e., their refusal to pay legally mandated support has forced their estranged families onto public assistance. This behavior clearly sets this group of individuals apart from other groups in the general population.

No attempt has been made to project lost revenue resulting from the refund offset program for delinquent child support payments. Because of the unknown tax consequences due to the increase in nonfilers, and the inability to calculate with any accuracy the revenue loss to the Treasury or the direct costs in terms of collection and investigation, the future impact of this program cannot currently be determined. A follow-up study is planned to track the TY81 refund offset cases through TY83.

Because of the limitations discussed above caution must be used when considering projecting the results of this study into other areas of non-tax debt collection through the refund offset method.

Form 6895 - IRS Refund
Offset Notification

ATTACHMENT 1

Department of the Treasury
Internal Revenue Service

If you have any questions, refer to this information:

Date of this Notice:
Social Security Number:
Document Locator Number:
Form: Tax Year:

Call:

or

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center

OVERPAID TAX APPLIED TO PAST-DUE SUPPORT OBLIGATION

Under authority of section 6402(c) of the Internal Revenue Code, we have kept all or part of your overpayment of tax to fully or partially satisfy a past-due child/spousal support obligation. It will be paid to the state agency named below. If you have questions about this obligation or believe the amount is in error, you should contact the State agency.

If this was a joint return and both spouses had income, the spouse who is not liable for the past-due support may object to having his or her share of the overpayment applied against the other spouse's obligation. We will divide a joint overpayment between spouses if a claim (Form 1040X, Amended U.S. Individual Income Tax Return) is filed showing each spouse's share of the tax and contribution to the overpayment. In community property States, the joint overpayment must be divided according to State laws.

If you have questions about your joint overpayment, you may call or write us -- see the information in the upper right corner. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

TAX STATEMENT

Your overpaid tax on return

Amount of overpaid tax applied to past-due obligation.

Amount to be refunded to you or applied to your estimated tax. $

(Your refund check will be mailed to you in 6 to 8 weeks if you owe no Federal taxes. Any interest due you will be added.)

STATE AGENCY

TELEPHONE

Form 6895 (3-82)

ATTACHMENT 2

Pre-Offset Notice

ATTACHMENT 2

(SAMPLE)

PRE-OFFSET NOTICE

From: FEDERAL TAX REFUND OFFSET PROGRAM

Division of Child Support
Bureau of Economic Support
1567 Main Street
Anywhere, USA 99940

October 15, 1983
CONTACT: (550) 670-9999
Bureau of Child Support
County Support Agency
555 First Street
Local Town, USA 99999

Your name is being referred to the Internal Revenue Service (IRS) for collection of past due child and/or spousal support. Any Federal Income Tax Refund to which you may be entitled may be retained in full or partial satisfaction of this obligation. Our records show that you owe at least the amount shown below. If you believe this is in error, contact us no later than November 24, 1983 at the address or phone number listed above.

SSN	CASE NUMBER	LOCAL ID	PAST DUE AMOUNT CLAIMED
123-45-6789	012012389765102	123	$123,123,977

TO: John Doe
666 Zip Street
Anywhere, USA 99999

Manually Compiled Data for the Total
Refund Offset Program for Delinquent
Child Support Payments

ATTACHMENT 3

Manually Compiled Data for the Total Refund Offset Program for Delinquent Child Support Payments

From the overall refund offset program, records of the referral cases maintained by the Service show that the number of cases submitted by OCSE increased from 547,000 for processing year 1982 to 821,000 for processing year 1983.1/ Of the 547,000 names submitted for 1982, 473,000 (or 86 percent) matched the IMF and had a freeze condition posted to the account. Approximately 279,000 (51 percent of names submitted) resulted in an actual offset of a refund. Of the 821,000 names submitted for 1983, 706,000 (or 86 percent) matched the IMF, and as of August 1983, 323,000 (39 percent of names submitted) resulted in an actual offset.

Although the number of referral cases has increased, successful offsets have declined as a percent of the total referrals. The average amount of the offset has also declined from $624 in 1982 to $526 for 1983 through August.2/ In contrast, the average refund issued, including interest, for all individuals increased from $769 in 1982 to $822 in 1983 through August.

1/These data are approximations based upon information manually compiled from operational data. The data are produced on a calendar year basis irrespective of the tax year; therefore, processing year 1982 would generally but not exclusively include tax year 1981 returns and processing year 1983 would generally include tax year 1982 returns.

2/Only those referral cases resulting in an actual offset were included in this calculation.

TY81 Total Individual Returns Filed by Size of Taxable Income from Statistics of Income Tabulations

ATTACHMENT 4

TAX YEAR 1981 RETURNS BY TAXABLE INCOME LEVELS

SIZE OF TAXABLE INCOME	--ALL RETURNS WITH TAX REFUNDS-- JOINT RETURNS (1)	AVERAGE TAX REFUND (DOLLARS) (2)	NON-JOINT RETURNS (3)	AVERAGE TAX REFUND (DOLLARS) (4)	TOTAL RETURNS (5)	AVERAGE TAX REFUND (DOLLARS) (6)	--GRAND TOTAL, ALL RETURNS-- JOINT RETURNS (7)	NON-JOINT RETURNS (8)	TOTAL RETURNS (9)
NO TAXABLE INCOME	1264173	1036	2928629	194	4192802	448	1861993	3682826	5544819
1 TO 3,400	1884322	739	10409637	307	12293959	373	2628049	12370106	14998155
3,401 TO 6,500	2315084	804	7160367	457	9475451	542	3424348	9053465	12477813
6,501 TO 8,500	1496446	820	3798296	450	5294742	554	2225324	4734547	6959871
8,501 TO 11,000	2040941	850	4072570	507	6113511	621	2878930	5147068	8025998
11,001 TO 15,000	3738609	942	4588421	615	8327030	761	5140169	5796213	10936382
15,001 TO 18,000	2918304	1017	2224748	824	5143052	934	4049884	2965431	7015315
18,001 TO 24,000	5705456	1128	2450784	963	8156240	1079	7864098	3477544	11341642
24,001 TO 29,000	3451993	1223	753214	1258	4205207	1229	5184568	1190723	6375291
29,001 TO 34,000	2264464	1351	232111	1418	2496575	1357	3850536	515144	4365680
34,001 TO 42,000	1464826	1561	114222	2059	1579048	1597	3216115	388094	3604209
42,001 OR MORE	949601	3445	73042	5486	1022643	3591	3373634	377314	3750948
TOTAL	29494219	1129	38806041	508	68300260	776	45697648	49698475	95396123

ATTACHMENT 5

"Staff Data and Materials on Child Support"
Prepared by the Staff of the Committee on Finance
United States Senate

ATTACHMENT 5

98th Congress
2d Session

COMMITTEE PRINT

Staff Data and Materials on

CHILD SUPPORT

Prepared by the Staff of the

COMMITTEE ON FINANCE

UNITED STATES SENATE

ROBERT J. DOLE, *Chairman*

SEPTEMBER 1983

Printed for the use of the Committee on Finance

24-091 O

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1983

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010025-5

TABLE 16.—FEDERAL TAX REFUND OFFSET PROGRAM, FISCAL YEAR 1982—CONTINUED

State	Cases submitted	Amount submitted	Cases offset	Amount offset [1]
New Hampshire	1,400	$2,877,100	890	$506,500
New Jersey	36,890	198,818,000	15,905	9,363,400
New Mexico	950	1,847,900	440	209,900
New York	33,020	88,345,000	14,100	7,496,900
North Carolina	100	125,500	80	39,900
North Dakota	1,040	3,646,500	510	310,600
Ohio	1,680	9,403,800	920	657,200
Oklahoma	260	979,600	80	51,000
Oregon	27,970	85,424,100	11,690	6,887,100
Pennsylvania	10,980	85,982,000	3,860	2,415,800
Rhode Island	310	496,400	180	88,500
South Carolina	500	1,050,400	300	138,500
South Dakota	860	2,477,900	440	272,400
Tennessee	170	257,400	100	41,300
Utah	12,390	42,648,300	5,690	3,529,900
Vermont	3,870	11,148,100	2,490	1,281,600
Virginia	6,580	12,843,600	2,930	1,442,100
Washington	10,510	39,341,500	4,800	2,958,900
West Virginia	660	2,194,600	370	259,200
Wisconsin	25,260	135,984,700	12,340	8,399,200
Wyoming	450	1,472,500	240	165,500
Total	561,290	2,163,679,400	262,030	166,260,000

[1] Amounts offset reflect total amounts collected and are subject to reduction as a result of (1) States refunding the collection because, for example, there was no past due obligation or because of (2) adjustments to tax payer accounts by the IRS.

Note: Cases rounded to nearest ten; amounts rounded to nearest hundred.

Source: Child Support Enforcement, 7th Annual Report to Congress for the Period Ending September 30, 1982.

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TABLE 17.—IRS FULL COLLECTIONS, FISCAL YEAR 1982

State	Cases certified	Amount certified	Collections made	Amount collected
Total	160	$1,470,911	1,384	$564,272
Alabama	0	0	0	0
Alaska [1]				
Arizona [1]				
Arkansas	0	0	14	2,687
California	16	111,524	72	62,786
Colorado	5	57,378	4	11,862
Connecticut	6	37,744	53	15,282
Delaware	0	0	2	1,061
District of Columbia [1]				
Florida	2	13,022	3	1,803
Georgia	3	11,600	0	0
Hawaii	0	0	0	0
Idaho	2	5,185	37	15,570
Illinois [1]				
Indiana	1	5,505	1	1,000
Iowa	0	0	33	8,547
Kansas	0	0	29	17,653
Kentucky [1]				
Louisiana	2	4,011	43	9,994
Maine	1	12,985	43	20,839
Maryland	0	0	26	6,657
Massachusetts	62	637,937	216	76,917
Michigan	1	43,307	0	0
Minnesota	3	21,323	3	925
Mississippi	0	0	0	0
Missouri	3	73,377	0	0
Montana [1]				
Nebraska	1	9,500	3	827

TABLE 16.—FEDERAL TAX REFUND OFFSET PROGRAM, FISCAL YEAR 1982

State	Cases submitted	Amount submitted	Cases offset	Amount offset [1]
Alabama	2,930	$5,309,300	1,600	$903,200
Alaska	230	1,576,500	90	104,200
Arkansas	2,670	4,980,500	1,440	686,800
California	146,610	632,909,900	66,450	44,548,400
Colorado	4,090	15,293,700	2,020	1,303,500
Connecticut	20,710	62,863,300	11,370	6,708,500
Delaware	200	503,400	80	47,000
District of Columbia	1,550	7,090,300	810	589,100
Florida	200	504,700	100	48,100
Georgia	50	134,400	30	18,100
Hawaii	990	3,296,000	430	296,400
Idaho	5,180	12,347,700	2,390	1,430,600
Illinois	11,710	34,637,700	5,320	3,596,000
Indiana	6,610	15,839,100	2,460	1,305,900
Iowa	8,510	42,852,200	5,530	4,434,000
Kansas	9,060	25,614,600	4,490	2,711,700
Kentucky	7,390	14,578,800	4,010	2,229,000
Louisiana	6,130	8,041,800	3,020	1,407,200
Maine	2,890	11,489,400	1,270	704,400
Maryland	27,990	75,264,000	14,110	7,930,000
Massachusetts	6,680	17,335,300	3,760	2,157,700
Michigan	59,930	304,086,000	27,165	21,337,900
Minnesota	25,260	76,189,400	11,550	6,870,200
Mississippi	3,630	8,408,200	2,130	1,063,800
Missouri	22,030	50,138,900	11,040	6,666,400
Montana	530	1,622,300	250	173,200
Nevada	1,680	3,407,100	760	473,300

TABLE 17.—IRS FULL COLLECTIONS, FISCAL YEAR 1982—CONTINUED

State	Cases certified	Amount certified	Collections made	Amount collected
Nevada	0	0	0	0
New Hampshire	1	$4,382	0	0
New Jersey	1	32,520	0	0
New Mexico	4	13,943	29	$13,373
New York	14	86,887	610	181,590
North Carolina [1]				
North Dakota	1	9,906	1	549
Ohio	2	18,245	18	23,862
Oklahoma	0	0	5	3,970
Oregon	4	55,446	9	9,066
Pennsylvania	5	49,489	9	13,563
Rhode Island	1	5,730	0	0
South Carolina [1]				
South Dakota	0	0	1	185
Tennessee [1]				
Texas	15	90,274	80	33,642
Utah	0	0	3	1,191
Vermont	0	0	5	1,068
Virginia	1	8,056	17	2,351
Washington	2	38,300	10	16,038
West Virginia	1	13,335	2	5,106
Wisconsin	0	0	0	0
Wyoming	0	0	3	4,308
Puerto Rico [1]				
Virgin Islands [1]				
Guam [1]				

[1] Not participating in IRS certification program; have not certified any cases since program's inception.

Note: Represents cases submitted on a case-by-case basis to the IRS, through the OCSE Regional Office, for collection using a wide variety of collection techniques.

Source: Child Support Enforcement, 7th Annual Report to Congress for the Period Ending September 30, 1982.

Change Between TY81 and TY82 in
Withholding to Salary Ratio

A. For Refund Offset Cases

B. For Control Group Cases

Attachment 6A

S T A T I S T I C A L   A N A L Y S I S   S Y S T E M

TABLE OF FSC1 BY DECREASE
for REFUND OFFSET GROUP

FSC1 / DECREASE (FREQUENCY, PERCENT, ROW PCT, COL PCT)	.5-9.5%	10-15%	16-20%	21-25%	26-30%	31-35%	36-50%	51-70%	OVER 70%	TOTAL
SINGLE	57703	2256	411	99	14	6	3	6	13	60511
	46.79	1.83	0.33	0.08	0.01	0.00	0.00	0.00	0.01	49.07
	95.36	3.73	0.68	0.16	0.02	0.01	0.00	0.01	0.02	
	48.79	54.04	64.32	65.56	63.64	60.00	25.00	60.00	54.17	
MARRIED	60576	1919	228	52	8	4	9	4	11	62811
	49.12	1.56	0.18	0.04	0.01	0.00	0.01	0.00	0.01	50.93
	96.44	3.06	0.36	0.08	0.01	0.01	0.01	0.01	0.02	
	51.21	45.96	35.68	34.44	36.36	40.00	75.00	40.00	45.83	
TOTAL	118279	4175	639	151	22	10	12	10	24	123322
	95.91	3.39	0.52	0.12	0.02	0.01	0.01	0.01	0.02	100.00

NOTE: Data is drawn from a total of 222,591 TY81 refund offset cases that had the same filing status for both TY81 and TY82. Of these 222,591 returns, only 123,322 returns tabulated here had a decrease in withholding to salary ratio.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010025-5

Attachment 6 B

STATISTICAL ANALYSIS SYSTEM

TABLE OF FSC1 BY DECREASE
For CONTROL GROUP

FSC1 DECREASE

FSC1 / FREQUENCY / PERCENT / ROW PCT / COL PCT	.5-9.5%	10-15%	16-20%	21-25%	26-30%	31-35%	36-50%	51-70%	OVER 70%	TOTAL
SINGLE	41252	929	144	48	8	2	13	4	8	42408
	51.36	1.16	0.18	0.06	0.01	0.00	0.02	0.00	0.01	52.80
	97.27	2.19	0.34	0.11	0.02	0.00	0.03	0.01	0.02	
	52.69	58.14	55.60	54.55	42.11	33.33	54.17	28.57	27.59	
MARRIED	37036	669	115	40	11	4	11	10	21	37917
	46.11	0.83	0.14	0.05	0.01	0.00	0.01	0.01	0.03	47.20
	97.68	1.76	0.30	0.11	0.03	0.01	0.03	0.03	0.06	
	47.31	41.86	44.40	45.45	57.89	66.67	45.83	71.43	72.41	
TOTAL	78288	1598	259	88	19	6	24	14	29	80325
	97.46	1.99	0.32	0.11	0.02	0.01	0.03	0.02	0.04	100.00

NOTE: Data is drawn from a total of 140,140 TY81 refund returns (without a refund offset for child support) that had the same filing status for both TY81 and TY82. Of these, only 80,325 returns tabulated here had a decrease in withholding to salary ratio.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON D.C. 20500

MARTIN FELDSTEIN, CHAIRMAN
WILLIAM A. NISKANEN
WILLIAM POOLE

January 7, 1984

MEMORANDUM FOR CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: William A. Niskanen WAN

SUBJECT: The Effects of an Item Veto on Government Spending: Evidence from the States

This memorandum is a note of caution against claims that Presidential authority to reduce or veto specific items in an appropriation bill would reduce total Federal spending.

Evidence from the states indicate three general patterns:

1. Total general expenditures per capita are somewhat higher in states where the governor has authority for an item veto.

2. Moreover, this difference is almost as large when controlled for the major economic and demographic conditions that affect the distribution of spending per capita among the states.

3. Authority for an item veto may affect the composition of spending. States where the governor has authority for an item veto, controlling for other conditions, appear to have somewhat higher spending per capita for education and highways, about the same spending for welfare and health, and possibly lower spending for all other activities.

These differences are not strongly significant by statistical criteria. They do not, however, support a conclusion that authority for an item veto has reduced total state spending. (The attachment summarizes this evidence in more detail. Any analyst can replicate these results in a few hours based on generally available information.)

An item veto may be valuable even if it does not reduce total spending. A President of either party usually has a more national perspective than any member or group of Members of Congress. This usually leads a President to have higher preferences, for example, for defense and free trade and lower preferences for the large set of activities with local benefits. An item veto would probably reenforce the President's preferences on the composition of spending and other activities. This objective is worth seeking. We would undermine our case, however, by making an overstated claim about its effects on total spending, a claim that could be easily refuted.

Attachment

The Sample

Most of the tests reported below involve comparisons of the State and local general expenditures per capita between states where the governor has authority for an item veto and in states where there is no such authority. In general, it is best to use the combined level of state and local spending, rather than state spending alone, because of the different distribution of responsibility between State and local governments among states.

The sample includes only the 48 contiguous states. Alaska, Hawaii, and the District of Columbia are excluded because spending in these governments is much higher than the average of other states. Since the executive in each of these governments has authority for an item veto (indeed, the vote necessary to overturn an item veto in Alaska is the highest of any state), excluding these governments understates the average difference between spending in the veto and non-veto states.

Most of the variation in state and local spending per capita, of course, is dependent on conditions other than the item veto. The partial effects of an item veto are estimated from regressions that include the following other variables:

personal income per capita
federal revenue per capita
percent of population of school age
percent of population who are poor
percent of population in metropolitan areas
population per square mile

All data are for 1980, with the exception that 1979 data are used for the percent of persons who are poor.

A complete file of the sample data and the test results are available on request.

Effects of an Item Veto on Total Spending per Capita

The table below presents the difference in total spending per capita in states where the governor has authority for an item veto and in states where there is no such authority. A positive difference, thus, indicates that spending is higher in states where there is authority for an item veto.

Total General Expenditures per Capita

	State (Average)	State and Local (Average)	State and Local (Partial)
Difference	$31	$92	$78
Standard Deviation	72	98	50

This table indicates that spending per capita is somewhat higher in states where the governor has authority for an item veto. The average differences in spending are not significant. The partial difference, controlling for the other conditions identified, is moderately significant.

Effects of an Item Veto on Spending per Capita by Function

The table below presents the partial differences in general expenditures per capita by the major functions of state and local governments.

State and Local General Expenditures per Capita by Function

	Education	Highways	Welfare	Health	All Other
Partial Difference	$60	$21	$4	$4	$-12
Standard Diviation	27	17	22	17	27

The table above indicates that state and local general expenditures per capita is higher for each function except the 'all other' category in states where the governor has authority for an item veto. This partial difference is strongly significant only for education, moderately significant for highways, and is not significant for other functions.